

How lean became mean

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Eager to achieve Toyota-style levels of performance differentiation, service organisations have flocked to embrace 'lean'. Unfortunately, many are becoming disillusioned by results that fail to come up to expectations. The gains reported by the copious lean projects don't throw real money to the bottom line. We need to understand why.

Lean arrived in service organisations that were already highly industrialised – for instance, call centres and back offices managed as mass-production systems. Managers of these organisations think of their job as continually juggling the following equation: how much work is coming in, how many people do I have, and how long do people take to do things? Central to this production-driven view is that activity equals cost; hence, the argument goes, the more we reduce activity times the more we cut costs. It is a fallacious argument, to which we will return.

Mass-production managers are constantly looking for new ways to do three things: standardise work, reduce activity times and drive out waste. For them, lean seemed like an answer from heaven. They were encouraged by the consultants and others who promulgated lean, and who shared a similar world view: lean was a new solution to management's known problems.

Yet that very assumption – that we already know what our real problems are – runs directly counter to the teachings of the originator of 'lean' (a label he would have rejected), Taiichi Ohno. Ohno taught managers that their first and primary task is to study their systems, to identify and understand what their real problems are. He taught that through acting on the system – the way the work works – and focusing on relationships, financial results would follow. To focus on financial results is to do it the wrong way round – they are the by-product of identifying and resolving the problems in the system.

Studying service organisations as systems reveals some counter-intuitive truths. To treat all demand as though it is work to be done is to miss the truth that much of it is what I call **failure demand** (demand caused by a failure to do something or do something right for the customer [Seddon 2003]). Much failure demand is predictable, and if it is predictable it is preventable. It cannot be removed without understanding its causes, however. And

studying service organisations as systems reveals that two of the major causes are – wait for it – standardisation of work and management’s focus on activity management. When we switch off preconceptions and really study service organisations as systems, we discover that they have very different problems to solve from car or component manufacturers. By far the most important is designing a system that can absorb the variety of customer demand. If we can achieve that, costs will fall as service improves. It is the essence of the ‘Toyota solution’ for service organisations – and has little to do with what is commonly accepted as ‘lean’.

By believing the pitch that the Toyota tools are universal (again contradicting the advice of Ohno, who insisted that codifying method would have exactly this damaging result), managers have failed to realise they have missed the first and vital step and thus the whole point of the Toyota approach. A focus on reducing activity times to cut costs not only leads them to ignore a much more powerful lever for improvement – understanding demand – but also lulls them into the belief, understandable but erroneous, that they must automatically be improving end-to-end performance, the complete flow of service from first contact to final solution, as well. As careful analysis shows, focusing on activity times usually damages end-to-end performance from the customers’ point of view, with inevitable upward impact on costs.

Even Toyota is not immune to the tools problem. At an experimental learning site I witnessed Toyota people recording the movements of customers around a car-retail showroom. Following materials through a system might be helpful in resolving specific issue in manufacturing; studying customers’ movements involves lots of investment in sophisticated tracking hardware and software but teaches you nothing about they really care about. Toyota was also employing mystery shopping, a device for attempting to control the behaviour of service and sales agents; again, mystery shopping teaches nothing about demand from the customers’ point of view. Yet understanding and acting on demand is the greatest lever for improvement in service organisations.

Understanding demand leads to the recognition that service organisations need to use people to absorb variety. This is a direct and fundamental challenge to factory designs that instead use IT to standardise it away – ‘dumbing down’ rather than ‘smartening up’ – and which have become the norm. It is true that as a result transaction costs may rise in customer-contact areas – but the total costs of service fall. The lesson is that costs are in

flow, not activity; something that is also true in manufacturing. These designs put people in control of the work and change radically the role of management, which is henceforth to work on the system rather than manage the people.

Instead of changing it, lean unfortunately reinforced management in its current paradigm. As such it represents the further industrialisation of service, with effects that can only be deleterious. Aside from the costs of inefficient service delivery and unhappy customers, lean (like all mass-production management) demoralises workers. Four years into its lean programme, and still experiencing serious performance problems, HMRC reports chronic low morale; while in a new book Stewart et al [2009] tell the sad tale of lean's use, or rather abuse, as another device to sweat labour, about as far from Ohno's philosophy as it is possible to get.

Again, as we have seen over recent weeks, Toyota itself is not immune from falling short. Tom Johnson [2009] explained the company's plunge into its first-ever losses after 50 years of outstanding financial results as a consequence of losing sight of the fundamentals, a diagnosis confirmed by president Akio Toyoda's mea culpa to a US congressional hearing. In our service organisations we have only begun to learn about the fundamentals, the shift from management by the numbers to management by means, as Johnson expresses it. But just as Ohno learned in manufacturing, a focus on relationships (the system) in service organisations delivers levels of performance improvement that most people wouldn't dare dream of – something far beyond the capacity of any commercial toolkit to deliver, even one that calls itself 'lean'.

Seddon, J. 2003, "Freedom from Command and Control: the Toyota System for service organisations". Vanguard Press, Productivity Press (2008).

Stewart, P. et al, 2009, "We sell our time no more: Workers' Struggles Against Lean Production in the British Car Industry". Pluto Press.

Johnson, T. The Unnatural Environment, Quality World, November 2009.'

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